

AR28

Income
p. 2

Income
**INCOME
TRUST**

ANNUAL
REPORT
1978



	1978	1977
OPERATING RESULTS		
Gross Income	7,148,965	5,516,232
Expenses	6,486,851	4,931,009
Net Operating Income	387,788	361,115
POSITION AT YEAR END		
Cash and Securities	4,948,617	2,801,171
Mortgages and Loans	69,061,108	50,817,679
Total Assets Under Administration	185,771,062	142,641,672
Shareholders' Equity	3,270,166	2,873,412
PER SHARE		
Net Operating Income	1.72	1.64
Dividends	.24	.20
Shareholders' Equity	14.48	13.03

GENERAL COMMENTS

I am pleased to present our Annual Report for 1978, including audited financial statements for the year ended December 31, 1978. Throughout 1978, Income Trust operated in a climate of economic and monetary instability, high interest rates, slow economic growth, considerable unemployment and a weak dollar. Six increases in the bank prime lending rate took place in 1978 - from 8 1/4% to 11 1/4%. Short term rates increased more rapidly than long term rates, and interest rates on deposits rose more rapidly than those on investments. In addition, fierce competition for investments and assets as a result of high levels of liquidity led to a narrowing of margin spreads.

Despite this background of harsh economic uncertainty, your Company achieved record growth and earnings.

EARNINGS

Income before taxes for the year amounted to \$662,114 as compared with \$585,223 for 1977. After providing for income taxes, net earnings for the year amounted to \$387,788 which compares with \$361,115 for 1977. Net earnings per common share were \$1.72 compared to \$1.64 in 1977, computed on the total number of common shares outstanding at year end. Net earnings per common share for 1978 computed on the weighted average number of common shares outstanding was \$1.75.

DIVIDENDS

Dividends paid in 1978 amounted to \$53,684 compared with \$44,115 in 1977.

ASSETS UNDER ADMINISTRATION

Your Company was able in 1978 to maintain its continued asset growth. Total assets under administration at year end were \$185.8 million, an increase of 30% from December 31, 1977. Corporate assets increased by \$19.9 million or 37% to \$74.3 million.

MORTGAGES

Income from mortgage loans rose by \$1.29 million or 26%. Our mortgage portfolio increased by \$17.8 million, or 37%. This substantial increase was achieved in spite of extremely competitive conditions in

the mortgage market, and our mortgage staff is to be highly commended for its efforts in this regard.

During the year, Central Mortgage & Housing Corporation held auctions of mortgages from its portfolio. Your Company bid successfully at one of such auctions and acquired a block of \$3.5 million of N.H.A. mortgages. Our total mortgage portfolio is strong and sound, and we have made provisions where deemed necessary for anticipated losses. The bulk of new mortgage loans being committed for by Income Trust are privately insured. Arrears are closely watched and supervised by certain members of the mortgage department staff.

There is at present considerable diversification in the types of mortgage loans available to meet the needs of borrowers and your Company, wherever possible, will attempt to be innovative in its mortgage activities to ensure continued sound growth in its mortgage portfolio.

CONSUMER LOANS

You will note from the balance sheet a substantial increase in consumer loans to \$431,918. We have not to date actively pursued this area of business since there are statutory limitations governing the amount of funds permitted to be so invested. Management is presently considering this area, as well as others that may be available to us, to generate new business as a result of declining demand for mortgage loans.

TRUST INCOME

Income from personal, pension and corporate trusts has continued its pattern of steady growth. In 1979 we look for a significant increase in income as a result of firstly, new business presently being transferred to Income Trust and secondly, from concentrated efforts being expended in this area of operations.

BRANCHES

Accounts at our savings branches in Hamilton, Kitchener and St. Catharines increased by 53% in number and by 67% in dollar volume over those of 1977. Our managers of the savings branches, in conjunction with head office personnel, are working on several campaigns to actively market our products in 1979.

In January, 1979, a non-savings office was opened in London, Ontario.

COMPUTERIZATION

An excellent program for G.I.C.'s was implemented in 1975. Since that time, programming staff of your Company in conjunction with a software house have designed and implemented several programs with respect to our services and reporting requirements. We have just recently completed an extensive mortgage program which took over one year to design, test and implement. Our mortgage program is now fully operational and will assist your Company greatly in its administration of not only Income Trust's mortgage portfolio, but also portfolios of other parties on whose behalf your Company is rendering mortgage administration and collection services.

LEGISLATION

In 1978, proposed Bank Act amendments were introduced which will be of vital significance to the trust industry. It is imperative that the federal and provincial governments work closely together to enact the legislation governing trust companies to permit increased powers and areas of activity, thereby enabling trust companies to compete on a more favourable basis with other financial institutions.

ACKNOWLEDGMENT TO STAFF

I would like to acknowledge the contributions made by our loyal and dedicated staff to the growth and profitability of Income Trust. As is the case with young companies, growing pains have made strenuous demands on our personnel and our men and women have certainly been equal to the task.

PRIVATE PLACEMENT OF PREFERRED SHARES

Your Company has been working for some time to increase its capital base to permit continued growth. Under the provisions of the federal Trust Companies Act as the same applies to Income Trust, we cannot borrow more than 20 times the excess of our assets less our liabilities. Accordingly, definitive arrangements have been made which should be completed shortly for a private placement of \$1 million of 8½% cumulative redeemable preferred shares with a par value of \$10 each, for issuance to two Canadian banks and to a small number of private corporate investors. It is anticipated that the proceeds from this placement will look after the financing requirements

of Income Trust for the immediate future. Based on your Company's past performance and projected earnings, we do not envisage any problem whatsoever in meeting the dividend requirements of this issue, as well as of meeting the payment of future common share dividends.

OUTLOOK

1979 will be a difficult year for the Canadian economy and a most challenging one for Income Trust. Vigorous competition, high interest rates, decreasing demand for housing and accordingly mortgage loans, unemployment and slow economic growth will all affect the operations of your Company. We will have to explore new avenues of possible investment in addition to the traditional forms of trust company investments. We will have to be innovative in designing and marketing new products wherever possible. Strict controls will have to be exercised at all times over costs of operation.

I have been in consultation over the past year with senior executives of several small trust companies whose problems in many instances are quite different from those of the large companies in our industry. We have attempted to seek solutions to problems of common concern and to search out new areas of investment both from a point of individual operations and where feasible, on joint venture bases. I feel and have expressed the opinion to government agencies at different levels, that the small trust company has a special role to play in our financial community, and deserves the same consideration as that given to larger financial institutions.

Your Company has now completed five full years of operations — January 1, 1974 to December 31, 1978. In this relatively short span, two out of the five years - 1974 and 1978 - have been periods of rising interest rates with the costs of funds borrowed increasing more rapidly than income from investments. In such periods, earnings growth is restrained. Notwithstanding, a brief glance at the graphs shown on page 4 of this report cannot help but instill confidence in your Company's future growth and profitability. Taking all factors into consideration, we are confident that we can meet the challenges in 1979.

Respectfully submitted,

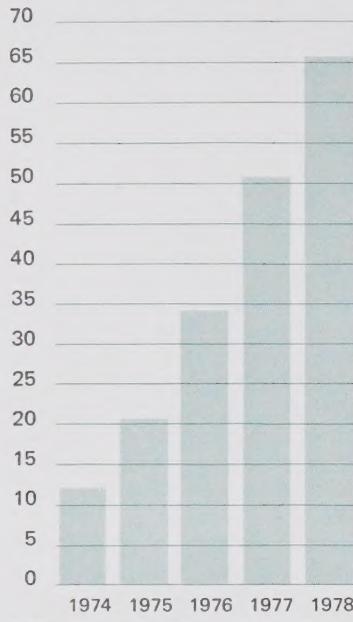


On behalf of the Board,
1st day of March, 1979.
Hamilton, Canada.

LYON WEXLER,
President and Chief
Executive Officer

**GUARANTEED INCOME
CERTIFICATES**

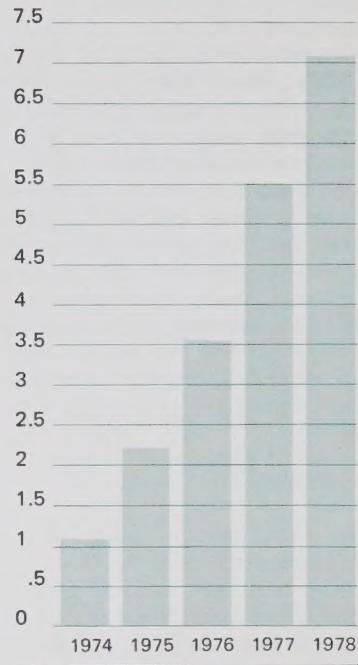
Millions of Dollars


MORTGAGES

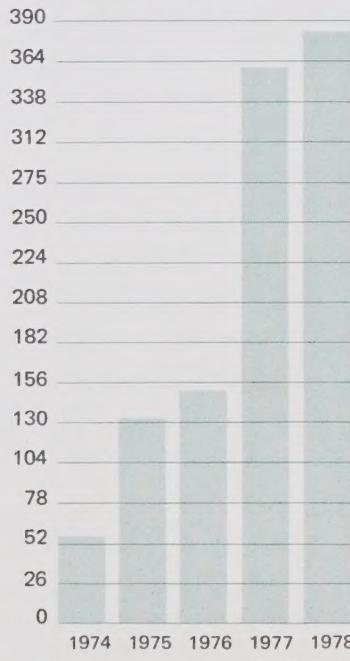
Millions of Dollars


REVENUE

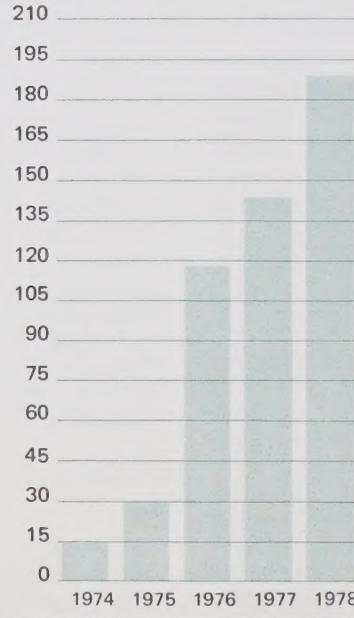
Millions of Dollars


NET OPERATING INCOME

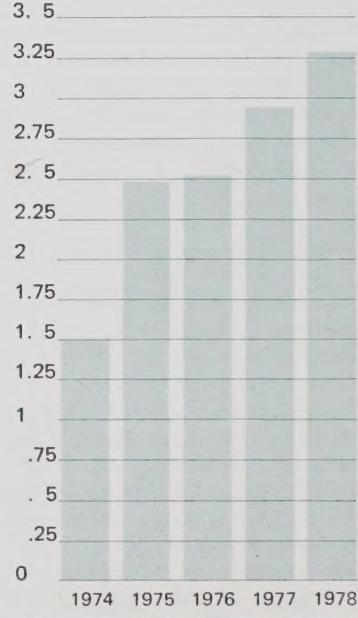
Thousands of Dollars


**ASSETS UNDER
ADMINISTRATION**

Millions of Dollars


**CAPITAL, SURPLUS & RETAINED
EARNINGS**

Millions of Dollars



**STATEMENTS OF INCOME,
RETAINED EARNINGS
AND GENERAL RESERVE**

For The Year Ended December 31, 1978

REVENUE	1978	1977
Interest from Mortgage Loans	\$ 6,317,535	\$ 5,030,987
Interest and Dividends from Investments	437,644	345,330
Fees and Commissions	44,550	23,260
Other Income	<u>349,236</u>	<u>192,766</u>
	<u>7,148,965</u>	<u>5,592,343</u>
 EXPENSES		
Interest on Deposits and Certificates	5,436,374	4,200,455
Salaries and Employee Benefits	437,985	308,984
General and Administrative Expenses	554,718	445,812
Depreciation and Amortization	<u>57,774</u>	<u>51,869</u>
	<u>6,486,851</u>	<u>5,007,120</u>
 INCOME BEFORE INCOME TAXES	<u>662,114</u>	<u>585,223</u>
Income Taxes - current	35,786	63,775
- deferred	<u>238,540</u>	<u>160,333</u>
	<u>274,326</u>	<u>224,108</u>
 NET INCOME FOR THE YEAR	<u>\$ 387,788</u>	<u>\$ 361,115</u>
 STATEMENT OF RETAINED EARNINGS		
RETAINED EARNINGS, beginning of year	\$ 480,650	\$ 263,650
 ADD:		
Net Income for the year	<u>387,788</u>	<u>361,115</u>
	<u>868,438</u>	<u>624,765</u>
 DEDUCT:		
Dividends (Note 6)	53,684	44,115
Appropriation to General Reserve	<u>100,000</u>	<u>100,000</u>
	<u>153,684</u>	<u>144,115</u>
 RETAINED EARNINGS, end of year	<u>\$ 714,754</u>	<u>\$ 480,650</u>
 STATEMENT OF GENERAL RESERVE		
BALANCE, beginning of year	\$ 150,000	\$ 50,000
Appropriation from Retained Earnings	<u>100,000</u>	<u>100,000</u>
 BALANCE, end of year	<u>\$ 250,000</u>	<u>\$ 150,000</u>

ASSETS

	<u>1978</u>	<u>1977</u>
SHORT TERM NOTES	\$ 300,082	\$ 1,508,759
SECURITIES (Notes 1(a) and 2)		
Bonds	3,942,256	429,959
Stocks	706,279	862,453
LOANS		
Loans on Securities	2,249,951	2,595,796
Consumer Loans	431,918	197,640
Mortgages (Note 3)	66,379,239	48,626,265
FIXED ASSETS (Notes 1(b) and 4)	134,099	133,244
OTHER ASSETS, at cost	138,864	35,330
	<u>\$ 74,282,688</u>	<u>\$ 54,389,446</u>
	<u> </u>	<u> </u>

See accompanying notes to financial statements.

We hereby certify that to the best of our knowledge and belief, the balance sheet at December 31, 1978 and the accompanying statements of income, retained earnings and general reserve for the year then ended are correct and show truly and clearly the financial condition of the company's affairs as at December 31, 1978 and the results of its operations for the year then ended.

BERNARD S. WALMAN
Chairman of the Board

LYON WEXLER
President

S AT DECEMBER 31, 1978

LIABILITIES	1978	1977
GUARANTEED ACCOUNT:		
Demand Deposits	\$ 2,429,449	\$ 2,903,865
Short Term Deposits	2,625,949	1,488,750
Guaranteed Income Certificates	<u>60,714,519</u>	<u>45,711,231</u>
	65,769,917	50,103,846
MORTGAGES PAYABLE	702,464	602,022
BANK INDEBTEDNESS	3,811,921	316,281
ACCOUNTS PAYABLE (Note 5)	159,225	137,044
DIVIDENDS PAYABLE (Note 6)	27,095	22,057
INCOME TAXES PAYABLE	—	31,424
DEFERRED INCOME TAXES (Note 1(c))	<u>541,900</u>	<u>303,360</u>
	71,012,522	51,516,034
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7)	2,257,950	2,205,750
CONTRIBUTED SURPLUS (Note 8)	<u>47,462</u>	<u>37,012</u>
	2,305,412	2,242,762
GENERAL RESERVE	250,000	150,000
RETAINED EARNINGS	<u>714,754</u>	<u>480,650</u>
	3,270,166	2,873,412
	<u>\$ 74,282,688</u>	<u>\$ 54,389,446</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of Income Trust Company

We have examined the balance sheet of Income Trust Company as at December 31, 1978 and the statements of income, retained earnings and general reserve for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Ontario February 16, 1979

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER
& GRILL
Chartered Accountants

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) INVESTMENTS

Bonds and mortgages are stated at amortized cost plus accrued interest.

Discounts on bonds are amortized over the term to maturity.

Discounts on mortgages with maturities of five years or less are amortized over the term to maturity. Mortgages with maturities in excess of five years are amortized over one-half the term to maturity.

Stocks and short-term notes are stated at cost plus accrued dividends and interest. Gains and losses are recorded only upon realization of such investments except where there is a decline in value which is other than temporary, at which time a provision for loss is made.

(b) FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation and amortization. The assets are being depreciated at rates and methods which will amortize the cost of these assets over their estimated useful lives as follows:

Office equipment and fixtures - 25% diminishing balance
 Leasehold improvements - over a period of five years as follows:

Year 1	30%
Year 2	25%
Year 3	20%
Year 4	15%
Year 5	10% <u>100%</u>

(c) INCOME TAXES

Provision is made for income taxes on reported income in accordance with the tax allocation method. Under this method, deferred income taxes are provided for timing differences between reported and taxable income.

(d) SOFTWARE DEVELOPMENT COSTS

Computer software costs are deferred and expensed in the year the program becomes fully operational.

(e) COMMISSIONS AND FINDERS' FEES

The costs of commissions and finders' fees paid on the sale of guaranteed income certificates or acquisition of mortgages are expensed in the year the certificates are issued and mortgages purchased or assumed.

(f) Deposits, short-term notes and certificates are stated at cost plus accrued interest.

2. SECURITIES

	1978		1977	
	Cost	Market	Cost	Market
Bonds				
Government of Canada	\$3,279,015	\$3,101,338	\$ 429,959	\$ 426,209
Corporate	663,241	632,100	-	-
Stocks	3,942,256	3,733,438	429,959	426,209
	706,278	626,875	862,453	866,220
	<u><u>\$14,435,444</u></u>	<u><u>\$4,360,613</u></u>	<u><u>\$1,292,412</u></u>	<u><u>\$1,292,429</u></u>

3. MORTGAGES

	1978	1977
Face value of mortgages receivable	\$67,191,200	\$49,034,011
Less: Unamortized discounts	811,961	407,746
	<u><u>\$66,379,239</u></u>	<u><u>\$48,626,265</u></u>

4. FIXED ASSETS

Fixed assets and accumulated depreciation are set out below:

	1978		1977	
	Cost	Accumulated Depreciation and Amortization	Net	Net
Office equipment and fixtures	\$ 173,658	\$ 81,285	\$ 92,373	\$ 86,858
Leasehold improvements	117,607	75,881	41,726	46,386
	<u><u>\$ 291,265</u></u>	<u><u>\$ 157,166</u></u>	<u><u>\$ 134,099</u></u>	<u><u>\$ 133,244</u></u>

5. ACCOUNTS PAYABLE

Included in accounts payable is an amount of \$68,406 (1977 - Nil) due to an affiliated company in respect of services provided for mortgage development and administration.

6. DIVIDENDS

During the year, the company paid taxable dividends of 24c per outstanding common share amounting to \$53,684 of which \$27,095 representing a 12c per share dividend was declared pursuant to a directors' resolution dated December 21, 1978 and payable on and after January 31, 1979.

7. CAPITAL STOCK
(a) AUTHORIZED

500,000 shares with a par value of \$10 each

7. (b) ISSUED

220,575 shares issued as at January 1, 1978		\$ 2,205,750
5,220 shares issued for cash during the year		52,200
		<u>\$ 2,257,950</u>

(c) SHARE PURCHASE WARRANTS

The company has the following warrants outstanding at December 31, 1978

	Outstanding Jan. 1, 1978	Exercised During Year	Granted During Year	Outstanding Dec. 31, 1978
At various prices expiring in 1980	10,000	1,000	-	9,000
At various prices expiring in 1983	15,000	-	1,000	16,000
	<u>25,000</u>	<u>1,000</u>	<u>1,000</u>	<u>25,000</u>

(d) EMPLOYEE STOCK OPTIONS

The company has granted options to two employees to purchase, at escalating prices, a total of 4,000 shares in the capital stock of the company expiring in 1980.

8. CONTRIBUTED SURPLUS

Balance, January 1, 1978	\$ 37,012
Premium of \$2 per share on 5,220 shares issued during the year	10,440
Share purchase warrant issued during the year	<u>10</u>
	<u>\$ 47,462</u>

9. COMMITMENTS

The company pays annual rentals of approximately \$71,000, including property taxes for its leased premises. The lease agreements expire at various dates through 1990.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total remuneration paid during the year to directors and senior officers amounted to \$116,951 (1977 - \$108,798).

11. SUBSEQUENT EVENTS

The company intends to apply for supplementary letters patent to increase its authorized capital by 1,000,000 preferred shares issuable in series. The company is in the process of arranging a private placement of 100,000 Series A 8-1/4% cumulative redeemable preferred shares, par value \$10 each.

In January, 1979 the company opened its sixth office, non-savings, in London, Ontario.

12. COMPARATIVE FIGURES

The 1977 comparative figures have been restated to conform with the current statement presentation.



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BOARD OF DIRECTORS

JAMES R. BREITHAUPT, Q.C.,
Partner, Gothard & Breithaupt

BERNARD GREENBAUM
Mortgage Banker

JACK GWARTZ
President of Koffler Stores Limited

WILLIAM E. HOURIGAN, Q.C.
Partner, Hourigan and Sutherland

KENNETH CAMERON McGOWEN
President of Cloverlawn Investments Limited

ALEC MURRAY
President of Alec Murray Real Estate Ltd. 1-525-2850

ALDO POLONIATO
President of Hamilton Baking Company Ltd.

RICARDO JORGE TOHME
Director & Secretary-Treasurer of Cominex
International Inc.

BERNARD S. WALMAN 627-0303 527-4550
Mortgage Banker 627-4749

LYON WEXLER
Chief Executive Officer of the Company

IRVING ZUCKER
President of Eastern Broadcasting Company

OFFICERS

BERNARD S. WALMAN	—	Chairman of the Board
LYON WEXLER	✓	President & Chief Executive Officer
BERNARD GREENBAUM	—	Executive Vice-President & Secretary
MURRAY WALMAN	—	Vice-President, Mortgages
WILLIAM E. HOURIGAN Q.C.	✓	Vice-President
BRYAN W. SIMONS	✓	Treasurer & Comptroller
DAVID H. SHUTTLEWORTH	—	Manager of Administration
SIDNEY ORVITZ	—	District Supervisor
PETER MASKELL	—	Manager, Trust Services
GEORGE A. RUSSELL	—	Manager, Business Development



HEAD OFFICE

Hamilton,
181 Main Street West,
528-9811

BRANCHES

Hamilton,
181 Main Street West,
528-9811

James W. Bland, Manager

Kitchener,
49 King Street West,
743-2667

Richard Braiden, Manager

Toronto,
48 Yonge Street, Suite 210,
(at Wellington),
862-0118

Philip Ball, Manager

Oakville,
351 Church Street,
842-1515

Donald H. Fowler, Manager

St. Catharines,
22 King Street,
688-3366

Ronald V. Hogan, Manager

London
Suite 804
383 Richmond Street
433-7151

Paul Walman, Manager

SERVICES

- Chequing Accounts
- Premium Savings Accounts
- Business Accounts
- Money Orders
- Travellers Cheques
- Guaranteed Income Certificates
- Short Term Certificates
- Mortgage Loans
- Collateral Loans
- Consumer Loans
- Income Averaging Contracts
- Home Ownership Savings Plans
- Registered Retirement Savings Plans
- Registered Retirement Income Funds
- Deferred Profit Sharing Plans
- Pension Plans
- Estate Planning
- Trustee – Corporate and Personal



